ClarkCapital MANAGEMENT GROUP

NavigatorInsights

Active, Passive and Personal

Building Better Investment Strategies by Putting the Client First

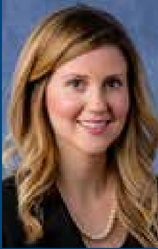
Our Chief Investment Officer, Sean Clark, recently participated in a panel at the CFA Institute's June Symposium in Philadelphia to discuss the merits of active and passive investing. Investment managers with a one-sided view can get pretty heated on the topic and, unfortunately, when investors see the passive camp trashing the active camp and vice versa, it implies that one methodology is right and the other is wrong. Fortunately, what made the CFA panel constructive was its ability to shed light on the merits of both active and passive investment strategies.

All of the panelists at the event agreed that asset allocation must come first, before any discussion of the kind of instrument used to implement the asset allocation. After all, as Sean pointed out, asset allocation determines more than 90% of returns over time.[1]

Unravelling the One-Size-Fits-All Approach

Vanguard's Jack Bogle, who pioneered low-cost indexing, kicked off the conference. Mr. Bogle sits squarely in the passive camp, advocating long-term, buy and hold investing in index funds. In other words, buy in, sit tight and ride out the market's ups and downs. While this might be the best approach for investors who have a strong appetite for risk and the fortitude to withstand tumultuous market environments, time has shown us that many investors panic and sell out of the markets during a downturn, locking in losses. When clients cash out of their investments during a downturn, they jeopardize their ability to meet their goals – even though market downturns are natural, sometimes even healthy, events. **No two investors are alike, and we believe a disciplined, diversified and personalized approach can help investors keep their calm through bear markets.**

Jack Bogle telling investors to sit tight and buy low-cost index funds is a little bit like the FDA telling Americans to eat right and exercise to stay healthy. In theory it sounds right but in practice, well . . . some of us could use a more active approach. After all, everyone has a different genetic makeup, different levels of self-discipline and different predispositions to health conditions. A one-size-fits-all approach is not always best for everyone.



Author: Patty Quinn McAuley

Patty Quinn McAuley, CFP®, is the Director of Marketing for Clark Capital Management Group. On the blog, she writes about helping clients achieve successful investment outcomes and about communicating effectively with clients.

The opinions expressed are those of the Clark Capital Management Group Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investment portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services can be found in its Form ADV which is available upon request.

CCM-757

In A Healthy Serving of Active and Passive, I compared the active vs. passive debate to America's diet obsession. Fad diets (we've all heard of the grapefruit diet and the cookie diet) might work at first, but they leave the body malnourished and can lead to the development of harmful habits.

The same holds true for one's investment allocation. Cutting out one style or type of investment entirely in favor of another can increase risk and derail an investor's long-term plan. A more moderate, diversified approach has a higher likelihood of success. It's all about creating good habits, because bad habits can slowly build up and undermine the chances of achieving one's goals. As Warren Buffet said, "Chains of habit are too light to be felt until they are too heavy to be broken."

Without diversification, portfolio risk goes up and we can be tempted to put all of our assets into a single investment style or the asset class outperforming its peers at a given time. When we search for shortcuts, we can easily lose track of the long-term benefits of investing and make bad decisions in the here and now.

Oversimplification Is Rife with Risk

No approach to investing is a silver bullet by itself, but investors can be tempted to go all-in with one approach if it seems as if that approach is winning. As humans, we seek simplicity, and we prefer to take the shortest route possible towards our goals.

The loudest talkers — and the ones who can simplify investing down to its most granular level — are the ones that are winning right now. Passive, low-cost investing is the clear winner in the headlines right now. Should that surprise anyone? We are 6+ years into a bull market! Many of today's investors might be hopping on the train when the next stop is a bear market. The S&P 500 index, for example, has tripled from its 2009 lows.[2]

Putting Clients' Needs First Helps Build Better Investment Strategies

Clark Capital's advice is to start with the investor's needs and goals first. Begin by gaining a solid understanding of how they think about money, their ability to handle stress and volatility in the markets, and their long-term aspirations. Only then can you begin to craft an investment strategy that can truly meet the needs of an investor in good times and bad. We call it a client-first approach. It centers the conversation on the client's goals rather than financial products. And instead of active or passive, the investment is personalized. The goal is to keep the clients within their personal risk comfort zone so they can stay in the markets and don't sell off in a panic. In other words, they can stay "in it to win it."

According to Sean, "We don't believe active and passive should be an 'either or' decision for an advisor or client, and they should not be mutually exclusive investment styles in a portfolio. In fact, the 2013 Nobel Prize for Economics was shared by world-renowned professors with opposite views. In one corner was Eugene Fama, who is an advocate of passive, investing; and in the other, Robert Shiller, who is an advocate of active management. The two styles complement each other and help to build a more robust portfolio; they aid in risk management and diversification."

The world's markets are complex, filled with risk, uncertainty and opportunity and are constantly changing. We believe the best approach is one that can help a client stay focused on the future, while confidently pursuing their goals.

1. "99.3% asset allocation + 40bp factor overweights + 30bp security selection." Norges Bank 2014 Report.
2. Browning, E.S. "Investing in Funds and ETFs." The Wall Street Journal, July 7, 2015.